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**REPORT ON EXAMINATION
OF
ECONOMIC AND TECHNICAL ASSISTANCE PROGRAM
FOR CAMBODIA
INTERNATIONAL COOPERATION ADMINISTRATION
DEPARTMENT OF STATE
FISCAL YEARS 1955-1957**

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THE COMPTROLLER GENERAL OF THE UNITED STATES

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GAO Wash., D.C.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

JUN 2 1958

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Mr. James H. Smith, Jr., Director
International Cooperation Administration

Dear Mr. Smith:

Herewith is the report on our examination of the economic and technical assistance program for Cambodia for the fiscal years 1955 through 1957, as administered by the International Cooperation Administration (ICA). Our examination was made as a part of our continuing audit of selected activities of the Mutual Security Program. Prior to 1955, Cambodia, together with the neighboring states of Laos and Vietnam, was the recipient of substantial United States aid administered for the area of former French Indochina as a whole. Our report on the assistance program for Vietnam, submitted to the Congress on May 22, 1958, discusses this earlier assistance.

The United States agencies responsible for the program in Cambodia considered it necessary in the interest of foreign policy to make a strong and immediate impact in the recipient country. As a result, the program was administered initially on an emergency basis and without the benefit of certain procedures and controls generally applied by ICA. Following the emergency period, we observed improvements in administrative procedures. However, we believe that ICA faces the continuing task to reach a better understanding with the recipient government in matters of program planning and execution and to bring the scope of assistance activities in harmony with technical and administrative capabilities in Cambodia.

Our findings relative to the program for Cambodia are summarized on pages 5 through 12 of this report. Following are the more significant matters which we believe require corrective action:

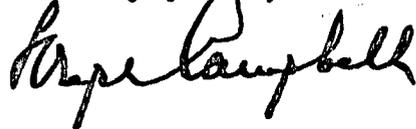
1. Negotiation with Cambodia of an up-to-date bilat-
eral agreement.
2. Institution of effective control procedures in
the administration of the commodity import pro-
gram, to prevent misuse of ICA aid funds.

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3. Negotiation with Cambodia of a fair exchange rate used in local currency generating programs.
4. Concentration on fewer projects with emphasis on those significantly contributing to Cambodian economic or technical development.
5. More precise project planning and mutual understandings with Cambodia regarding essential project elements prior to the commitment of United States aid funds.

Copies of this report are being sent today to interested congressional committees and to the Secretary of State.

Sincerely yours,



Comptroller General
of the United States

Enclosure

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SCOPE OF EXAMINATION

As part of our audit of the activities authorized by the Mutual Security Act of 1954, as amended (22 U.S.C. 1751), we have examined the United States economic and technical assistance program for Cambodia, as administered by the International Cooperation Administration (ICA) of the Department of State and its predecessor, the Foreign Operations Administration (FOA).

Our examination included a review of pertinent records and procedures at the Washington office of ICA and a brief visit in October 1956 to the agency's operations mission in Phnom Penh (Mission).

The principal objective of our examination was to determine, by reference to major activities and projects within the over-all country program, the adequacy of financial and related procedures in the use of mutual security funds appropriated for fiscal years 1955 and 1956. Our report gives effect to transactions and procedures in fiscal year 1957 which are pertinent to the matters covered in our examination.

The scope of this report does not include the military assistance program for Cambodia which is under the administration of the

Department of Defense and the subject of separate audit and reporting by the General Accounting Office.

A draft of this report was submitted to ICA in July 1957 for its review. We received the agency's comments in January 1958 and, as deemed appropriate, we have recognized such comments in the pertinent sections of our report. Because of the delay in receiving the agency's comments, it was necessary to extend our audit work at the Washington office of ICA in order that the subjects of our report would be as nearly as practicable on a current basis.

INTRODUCTION

During the period of hostilities in French Indochina which followed the close of World War II, the United States furnished substantial military and economic assistance for the area as a whole. This aid was provided to France and the three Associated States, Cambodia, Laos, and Vietnam. As a result of the Geneva agreement in July 1954 which terminated the war in Indochina and brought Northern Vietnam under Communist control, Cambodia, Laos, and Vietnam dissolved the political and economic association among themselves and with France and became the recipients of separate and enlarged assistance programs from the United States. The principal objective of this aid was to protect the newly won independence of the three states in the face of the Communist threat to their security and political and economic stability.

The amounts of aid funds obligated by ICA and its predecessor agencies for the area of Indochina through June 30, 1957, including aid before and after the Geneva agreement, are summarized below:

	<u>In millions</u>
Economic and technical assistance to the Associated States, 1951-54	\$ 114.0
Budget support for the forces of France and the Associated States, 1954	654.1
Budget support for the French Expeditionary Corps, 1955	62.3
Defense support and technical assistance, 1955-57:	
Cambodia	118.5
Laos	135.1
Vietnam	<u>787.2</u>
Total	<u>\$1,871.2</u>

The assistance programs for Laos and Vietnam are the subject of separate audit reports being issued by the General Accounting Office. A brief discussion of the earlier assistance programs for the area as a whole and of the French military efforts in Indochina is presented on pages 18 to 23 in our audit report on the program for Vietnam.

The ICA program for Cambodia was designed to serve the two main purposes of supporting the country's defense budget and promoting economic and technical development. ICA programed its funds (1) in the form of commodity procurement authorizations, triangular trade arrangements, and cash grants to finance imports and generate local currency needed to cover the local costs of the above programs and (2) by financing directly the dollar costs of needed equipment, services, and support costs of specific aid projects jointly sponsored by Cambodia and the United States.

The various program activities totaled 118.5 million dollars during the 3-year period 1955-57:

	<u>Obligations in millions of dollars</u>
Local currency generation:	
Commodity procurement authorizations	\$ 75.1
Triangular trade arrangements	4.1
Cash grants	12.0
Dollar financing:	
Economic and technical development	26.0
Ocean freight on relief shipments of surplus agricultural commodities	.4
Overseas administration	<u>.9</u>
Total program 1955-57 (exhibit 2)	<u>\$118.5</u>

SUMMARY OF FINDINGS

General observations

The assistance program for Cambodia--its objectives, nature, and administration--was influenced to a large extent by what was, in the opinion of the responsible United States agencies (ICA, State, and Defense), the political necessity of making a strong and immediate impact. Cambodia was spared the extreme dislocations suffered by the neighboring country of Vietnam as a result of open warfare, dismemberment, and attendant refugee problems. However, the requirements for assistance were deemed of such urgency that ICA undertook this program on an emergency basis without proper planning, adequate staffing, and a desirable degree of cooperation by the recipient government. The agency also considered it advisable to relax certain of its usual controls, made use of broad cash grants, and liberalized its import program.

An important consideration in making prompt commitments and seeking speedy action, despite administrative handicaps, was that Cambodia has taken an independent and "neutral" position in world affairs and received outside aid, or offers of aid, from several other sources in addition to the United States. Cambodia has been receiving assistance from France, the nations participating in the Colombo Plan, the specialized agencies of the United Nations, and Communist China. The country also has received offers of aid from Czechoslovakia, Poland, Russia, and Japan.

The agency has pointed to progress in the strengthening of internal security and the stabilization of the economy as a result of its assistance activities in 1955 and 1956. Following the

initial emergency period, the need for greater administrative efficiency has been generally recognized by the agency. We observed subsequent improvements in administrative procedures, but believe that the agency faces the continuing task of reaching a better understanding with the recipient country in matters of program planning and execution and of bringing the scope of assistance activities into harmony with technical and administrative capabilities in Cambodia. An internal audit of the overseas mission in Cambodia, undertaken by the Audit Division of ICA in June-July 1956, made various recommendations to strengthen administrative and financial procedures. The internal audit findings were confirmed by our observations for the matters covered by our examination.

Following is a summary of our findings regarding selected activities examined by us within the over-all program. These matters are discussed more extensively on succeeding pages of this report as indicated.

Bilateral arrangements (p. 13)

No formal agreement has been reached between Cambodia and the United States regarding the terms of the expanded assistance program which began in fiscal year 1955. The original economic cooperation agreement, signed in September 1951 before Cambodia had attained complete independence and designed for a somewhat different type of aid, has remained the principal document governing the bilateral relationship. Program implementation has been hampered by absence of a clear understanding of mutual obligations and ICA financial procedures.

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United States officials advise that, internal conditions in Cambodia permitting, they hope to resume the negotiations which had been discontinued in 1956 because of the inability to reach agreement.

Commodity import program (p. 15)

The size of the commodity import program financed by ICA was based principally on the requirements for generated local currency, to support the Cambodian military budget, and to finance local costs of the economic and technical development program. The program has been in excess of the limited import needs in Cambodia and contributed in part to a substantial increase in Cambodia's foreign exchange reserves.

Implementation of the program was hampered by the lack of economic data concerning Cambodian import requirements on which to base composition and size of the program. ICA was prompted to liberalize its established procedures so as to facilitate the importation of readily salable commodities. The agency authorized various categories of goods generally not eligible for financing, such as automobiles with de luxe accessories, air conditioners, refrigerators, phonographs, and bottles for the brewing industry.

The Mission's investigation of the end use of ICA-financed commodities initially was inadequate because of staff limitations. Progress in coverage has been made since 1956, but the disclosure of various cases of improper utilization emphasizes the need for continued and intensified efforts.

The reported misuse of aid funds, in the form of diversions, over-invoicing, and other procurement irregularities on the part

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of importers and suppliers, has been attributable chiefly to unsatisfactory Cambodian procedures in the licensing of importers. A number of administrative improvements which the Cambodian Government introduced with ICA assistance have not been fully effective. The basic conditions favoring the misuse of ICA funds, namely disparity between official and free-market exchange rates and the licensing of unreliable importers, have not been eliminated. We recommend that the agency in cooperation with the recipient government take all necessary steps to institute effective controls and prevent these malpractices.

Dollar cash grants (p. 26)

In fiscal year 1955, ICA advanced to Cambodia 12 million dollars by means of cash grants, based on the determination that urgent and immediate action was needed to generate local currency for military budget support payments. The commercial import program was considered too slow to generate the required proceeds in Cambodian riels prior to fiscal year 1956.

The agency made 4 monthly grants of 1.5 million dollars for the period February to May and a final grant of 6 million dollars in June 1955 covering the period June to September. The agency justified the payment in June on political and fiscal grounds; however, we believe that it was contrary to good financial management as its timing did not correspond to actual Cambodian budgetary requirements.

Although the dollar exchange accruing from these cash grants was to be used only as jointly agreed between the two governments, Cambodia applied part of the funds without obtaining ICA approval.

and rendered no accounting for the total sum of 12 million dollars. The agency decided in the interest of satisfactory relations with the recipient government that it would no longer insist on an accounting.

Administration of local currency funds (p. 29)

Lack of a mutual understanding with the Cambodian Government regarding deposit and utilization of ICA-generated local currency funds resulted in a number of deviations from ICA-prescribed procedures. We observed the commingling of United States-owned currency with Cambodian counterpart funds, delays in the timely use of released counterpart funds, and withdrawal of customs receipts without ICA approval. The agency advised that these administrative difficulties and misunderstandings have been substantially overcome.

The official exchange rate of 35 to 1, which ICA has accepted for converting dollar aid into local currency, overvalues the Cambodian riel compared with free-market rates ranging between 75 to 1 and 90 to 1. This condition results in a relatively larger expenditure of United States dollar funds and has an unfavorable effect on the import program by providing incentives for speculation and irregular practices. The agency states that negotiations for any revisions of the rate are being postponed pending current discussions on similar problems with the Governments of Vietnam and Laos.

Military budget support (p. 34)

The amount of financial support to the Cambodian military budget, totaling about 64 million dollars in the period 1955-57, was based on military and foreign policy considerations. The

program has been under reexamination with a view to reducing United States contributions in the light of the following circumstances:

1. ICA funding in 1955 and 1956 was based on preliminary cost estimates and required a review by the United States Military Assistance Advisory Group.
2. The United States Government initially considered it necessary to support the Cambodian military establishment at a level higher than that recommended by the United States Joint Chiefs of Staff until Cambodia could carry out the recommended reduction in forces.
3. Cambodia's own contribution to the military budget in 1956 has been considerably less than anticipated.
4. The advisability of decreasing United States military budget support was confirmed by the findings of a special study group representing ICA, State, and Defense in May 1956.

Gradual reductions in ICA assistance have been made since 1956. The 1957 program was reduced in view of a carry-over of unexpended local currency funds from preceding years and because of reduced military construction activities. The 1958 program reflects the scaled-down force levels as recommended by the United States Military. Further reductions are anticipated based on increased Cambodian budgetary contributions.

Economic and technical development (p. 37)

The agency encountered considerable difficulties in developing a sound program. Its overseas Mission was short of qualified technical staff, lacked the necessary economic data on Cambodian development requirements, and did not receive full cooperation from the Cambodian Government. The Mission had to spread its limited resources over a wide area of assistance activities which required special efforts toward effective coordination, readjustment,

and proper planning. To achieve immediate and maximum impact, ICA dispensed with the more precise project planning required by its established procedures.

ICA has made progress in several administrative aspects, such as recruitment of additional staff and elimination of various emergency projects taken over from the earlier 1951-54 Indochina program. However, further efforts are needed in the recruitment area and toward concentration on relatively fewer activities. The agency stated that a more satisfactory working relationship has been established with the Cambodian Government, although repeated cabinet changes have impeded cooperation and ICA efforts to have Cambodia assume a greater share of responsibility.

Our review of selected major projects disclosed the following conditions:

Construction of port highway (p. 42)--This project, which links the capital city of Phnom Penh with a new seaport being built with French assistance on the Gulf of Siam, seeks to satisfy Cambodian aspirations to become independent of the Vietnamese port of Saigon. The project is the largest single undertaking financed by ICA for Cambodia. Dollar contributions in 1955-57 totaled 16.5 million dollars, supplemented by contributions from the counterpart account equivalent to 2 million dollars.

Cost estimates supporting the original justification required substantial revisions, and computations made in fiscal year 1958 call for an ultimate expenditure of 27.7 million dollars, including 6 million dollars for local currency. The project has been delayed by slow contracting for the necessary engineering

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and construction services. A period of 15 months expired until the construction contract was signed by the Cambodian Government. Because of the urgency of the project, the contractor was authorized to commence work under a temporary letter of agreement, in force from July 1956 to March 1957, when the final contract was executed.

Certain aspects of the construction contract have been examined by the International Operations Subcommittee of the House Government Operations Committee. The subcommittee's examination was principally concerned with the amounts paid by ICA for used equipment formerly owned by the contractor.

Civil police administration (p. 49)--Under this project ICA committed, in June 1955, funds totaling \$775,000 for equipment and technical advice for the Cambodian police forces before essential elements concerning use of the funds and means of carrying out the project had been resolved. The agency had no mutual understanding with Cambodia regarding the rendering of technical assistance, and, pending a satisfactory agreement, the project was dormant for a 2-year period. Because of the special importance ascribed to the objectives of the project, ICA and the Department of State determined to keep the ICA commitment available for use. Subsequently the Cambodian Government accepted the agency's proposed plans for the services of United States technicians and signed a revised project agreement in June 1957 which was expected to be implemented in fiscal years 1958 and 1959.

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BILATERAL ARRANGEMENTS

In September 1951, the United States and the Royal Government of Cambodia signed an agreement of economic cooperation which has provided the framework for all economic and technical assistance activities of ICA and its predecessor agencies since that time. In order to specify more appropriately the terms and conditions of the greatly expanded program in fiscal year 1955, ICA and the Department of State deemed it advisable to negotiate a supplemental agreement similar to arrangements made with Vietnam and Laos subsequent to the Geneva conference. Negotiations were carried on for nearly a year but were discontinued in 1956 because of inability to reach formal agreement, principally because of the repeated changes in the Cambodian Government.

The agency stated that United States Government interests have not suffered and that policies and procedures in Cambodia have been in line with those followed by other aid-receiving countries. However, some difficulties were encountered because Cambodian officials did not understand the procedures prescribed by ICA for the administration of its program.

It is our observation that an effective implementation of the program was hampered by the lack of an up-to-date agreement on mutual obligations and a clear understanding of ICA financial procedures. For example, Cambodia was reluctant to accept the established control procedures for commodity imports financed by ICA, resulting in various undesirable practices. The country did not render an accounting of the use of cash grant dollars received from ICA, although the agency expected such accounting.

Considerable difficulties were experienced in working out satisfactory procedures for the deposit and use of generated local currency funds. Also, there was insufficient joint planning for individual projects as well as for the development program as a whole. These various shortcomings are further discussed in succeeding sections of this report.

ICA advised that, at the time negotiations were suspended, the more important provisions of a bilateral agreement had been substantially worked out. Internal conditions in Cambodia permitting, United States officials hope that they can suggest a resumption of negotiations during fiscal year 1958. We believe that all reasonable efforts should be made to resume these negotiations and obtain the desired clarification and formalization of the mutual relationship.

COMMODITY IMPORT PROGRAM

GENERAL

During the 3-year period 1955-57, ICA provided Cambodia with 3 sources of foreign exchange for the financing of commercial imports and the generation of Cambodian riels:

	Obligations at <u>June 30, 1957</u> (in millions)
Dollar allocations under procurement authorizations	\$75.1
Triangular trade arrangements	4.1
Dollar cash grants	12.0

The issuance of procurement authorizations for designated commodities or categories of commodities is the normal ICA method of financing essential imports and generating, through the sale of these commodities, corresponding local currency funds. The various commodity categories authorized by ICA in 1955-57 are summarized in exhibit 3.

Under triangular trade arrangements, ICA financed shipments of United States surplus agricultural commodities to third countries and made available the sales proceeds for imports by Cambodia from these third countries.¹ In consideration, Cambodia deposited riel funds to the counterpart account commensurate with the value of the third country currencies used.

Such triangular arrangements were made with Germany, Italy, Austria, and France:

¹These transactions were pursuant to section 402 of the Mutual Security Act of 1954, as amended (22 U.S.C. 1922).

<u>Third country</u>	<u>Proposed imports by Cambodia</u>	<u>Dollar value</u>
1956 program:		
Germany	Iron and steel products, industrial machinery, pharmaceuticals, chemicals	\$ 500,000
Italy	Textiles, vehicles, iron and steel products	350,000
Austria	Iron and steel products, pulp and paper, chemicals	250,000
1957 program:		
France	Industrial machinery, iron and steel products, textiles, pharmaceuticals, chemicals, rubber products	<u>3,000,000</u>
Total		<u><u>\$4,100,000</u></u>

The use of cash grants was an emergency measure in fiscal year 1955 and is discussed on pages 26 to 28.

Size of program in excess of import needs

The size of the commodity import program was based principally on the requirement for generating local currency to meet program commitments to the Cambodian budget, deemed politically and economically desirable, rather than specific import requirements of the Cambodian economy calling for foreign exchange. Because of the limited import needs in Cambodia, allocation of aid dollars for commodity imports, together with cash grants in fiscal year 1955, had the effect of appreciably increasing Cambodia's foreign exchange reserves. Conceivably, a contributing factor in this situation has been the use of an official exchange rate, for converting ICA dollars into riels, which has overvalued the riel in comparison with free-market exchange rates. Reported central bank reserves increased from 36 million dollars in January 1955 to 50 million dollars in December 1955 and over 80 million dollars in

July 1957. The Cambodian Government considered these reserves necessary to back up the expanded volume of local currency in circulation.

ICA advised that the build-up of foreign exchange reserves, although partly a result of a malfunctioning import licensing machinery, could not be avoided. The agency pointed out that the import program, if calculated on the basis of Cambodia's balance of payments situation, would not have generated sufficient local currency for military budget support and local project costs and that deficit financing was rejected as politically unacceptable. The agency anticipated that, with improved licensing procedures administered by the Cambodian authorities, some reduction in foreign exchange reserves may be expected. On the other hand, the increase in reserves is viewed by ICA as adding to the over-all strength of the country's economy and thereby the capacity to maintain its independence.

Absence of economic data in support
of import requirements

Proper planning and administration of the import program by ICA and Cambodia were hampered by the absence of reliable statistical data on which to base import requirements. Prior to 1955, Cambodia was a member of the Associated States' monetary union which was a part of the French union, and pertinent economic information was compiled for Indochina as a whole. Goods moved freely between the Indochina states, and most imports originated in France and were distributed from Saigon, the principal port of entry. Cambodian importers generally acted as branches of Saigon

import houses. When Cambodia became an independent trading area, the Cambodian Government and the business community had to develop their own trade experience. In the initial period of the expanded ICA program, the agency's dollar funds had to be allocated principally on the basis of discussions with potential users and importers, rather than reliable information on import requirements. For the purpose of generating needed riel funds and as an anti-inflationary measure, the agency considered it urgent to launch an import program as rapidly as possible, despite the unavailability of precise data and the lack of experience on the part of Cambodian officials and businessmen.

ICA advised that experience gained in the early import program has provided guidelines for the planning of subsequent annual programs and that such planning has been on an increasingly firmer basis.

LIBERALIZATION OF ICA PROCEDURES

The Mission found that the Cambodian authorities were not familiar with the agency's financing procedures and hesitated to accept the controls and delays attaching to the procurement authorization system as administered by the Washington office of ICA. As a result, the agency decided to modify and liberalize its procedures in several respects not only to accelerate the importation of readily salable commodities but also to eliminate misunderstandings on the part of the recipient country which might have reduced the political and psychological benefits expected from the aid program.

Waiver of notification to Office of Small Business

The agency waived the requirement that information on proposed procurement by Cambodian importers be submitted to the ICA Office of Small Business, for dissemination to interested American business concerns. ICA stated that efforts are continuing on its part to persuade Cambodia to furnish the required data; the agency has sought to point out the benefits which Cambodian commerce would derive from an expanded supply source.

Financing of goods generally not eligible

Because of the limited demand in Cambodia for the type of goods normally financed by ICA, the agency found it necessary to expand the types of eligible commodities. The ICA Mission in Cambodia has taken the position that the imports in question were not of a luxury type and that the essentiality of the commodity to the economy of the country was the determining factor. Following this reasoning, air conditioners were imported and not considered a luxury in view of the country's tropical climate. Bottles for beer and soft drinks were considered essential in order to maintain production at bottling plants. A toothpick machine was financed for a similar reason. Approval was also given to the importation of automobiles in the medium and higher price brackets,¹ and equipped with white-wall tires, two-tone paint, tinted window glass, power brakes and transmissions, power seats, and other

¹These automobiles, purchased at wholesale prices, came within the \$2,400 maximum allowed by the agency; however, generally ICA does not finance these types of automobiles.

accessories generally not financed by ICA. Among many other examples of generally ineligible commodities approved for financing, we noted pastel shaded refrigerators with colored replacement panels, lamps with musical bases, and phonographs.

The importation of passenger automobiles under the ICA program was subsequently discontinued, principally since certain official circles in Cambodia did not favor such imports and preferred more essential goods but also based on the consideration that Cambodia had adequate foreign exchange to finance passenger cars on its own.

We found it impracticable to determine the total of all commodities approved under the liberalized eligibility criteria for Cambodia. The agency uses a broad commodity code system in classifying goods financed with aid funds. These special items are included along with more essential commodities under general categories; for example, refrigerators are included as electrical apparatus, air conditioners are shown as industrial machinery, and beer bottles are classified as nonmetallic minerals.

In fiscal year 1958, the Mission reported that it had adopted the policy of authorizing only commodities normally eligible for ICA financing.

LICENSING PROCEDURES

The administrative procedures of the Cambodian agencies charged with the allocation of ICA funds and the issuance of import licenses were found by ICA to be unsatisfactory in several respects. With the assistance of the ICA Mission, the Cambodian Government introduced in 1956 and 1957 a number of procedures to

improve the licensing system. Regulations were set up to provide stricter eligibility requirements for importers, designed to reduce their number to a more manageable and reliable group. However, these measures have not been fully effective, or have not been sufficiently enforced, with the result that the basic conditions favoring the misuse of ICA assistance funds have not been eliminated to date.

Need for eliminating unreliable importers

Initially, Cambodia had no effective controls to limit the number of applicants for licenses to bona fide importers. With the expansion of the import program in 1955, the number of licensed importers was reported to have increased from about 70 to over 800. The disparity between the official exchange rate, applied to ICA-financed imports, and free-market exchange rates tended to attract speculation and provided incentives for diversions, overinvoicing, or other procurement irregularities. The low deposits initially required of importers when applying for licenses (10 percent of allocation) did not provide a sufficient deterrent to speculators. The additional requirement of a guarantee or cash bond, set in 1957 at 25 percent for each category of merchandise to be imported, was intended to restrict import licenses to responsible traders.

The eligibility and reliability of new importers were not effectively investigated although Cambodian regulations called for it. The government's desire to broaden the field of importers by licensing Cambodian nationals in addition, or in preference, to the established Chinese and French business firms opened the door

to admitting inexperienced or unqualified parties and restricting the use of the older, more experienced importers.

Need for policing sources of imports

Certain fraudulent or otherwise improper practices of importers and/or suppliers occurred involving the misuse of ICA dollar allocations. These transactions took place, especially in connection with Cambodia's purchases in Hong Kong, where exporters reportedly obtained excessive dollar funds through overpricing, short shipments, or substitution of inferior goods. The possibility of transferring dollar funds into Communist-controlled areas was also reported. The unreliability of the Cambodian customs service, and the lack of personnel in the Mission to conduct thorough end-use investigations after arrival of the commodities in Cambodia, precluded the detection and elimination of these malpractices. In response to a Mission request, the Cambodian authorities discontinued the granting of dollar allocations for purchases in Hong Kong, Singapore, and Bangkok as the principal sources of imports where misuses so far had been discovered. Discussions were held to set up an effective inspection service for shipments leaving these areas.

The agency has since taken the position that the prohibited areas should be restored as sources for imports, in keeping with the agency's policy of encouraging world-wide procurement and not denying business to reputable firms located in the three cities.

INVESTIGATION OF IMPROPER PROCUREMENT PRACTICES

The investigation of the end use of ICA-financed commodities, required by established ICA procedures, has been hampered in

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Cambodia by a shortage of investigative personnel assigned to the Mission. The first regularly scheduled investigations were undertaken in January 1956, approximately 1 year after the start of the expanded program in Cambodia. However, only one investigator was assigned to the Mission staff. Such checks as were conducted concentrated on the more easily identifiable items, such as industrial machinery.

The Mission reported that it had conducted 21 end-use checks through September 30, 1956; these checks totaled 12.8 million dollars out of shipments aggregating 26.7 million dollars, or 50 percent. A year later, total investigations covered shipments valued at 15.9 million dollars, representing 30 percent of cumulative expenditures in fiscal years 1955-57. According to Mission reports, coverage was fairly evenly distributed over the various sectors of the commodity import program. The Mission Controller's Office is now staffed close to its authorized strength, with recruitment of an additional Chinese-speaking investigator under way.

The Mission's investigations disclosed a number of unsatisfactory cases indicating improper utilization of ICA funds. Several cases of nonutilization and possible diversion were referred to the Cambodian Government together with requests for refund. Cases involving possible irregularities were referred to the ICA Office of Security and Integrity which has been making additional investigations through its regional office in Thailand. One of the cases investigated was referred to the Department of Justice as it involves an American supplier. The agency's efforts to

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disclose improper transactions further included examination of selected expenditure documents by the administrative audit staff and the procurement analysis staff of the Controller's Office in Washington. These efforts disclosed various exceptions, several resulting in refund claims against the Cambodian Government.

Our examination of selected ICA disbursements disclosed the financing of 100 radio receiving and transmitting sets at a unit price of \$4,450 compared with a declared cost of \$1,700 per unit. In view of the 160 percent markup which appears to be in violation of the price provisions contained in ICA Regulation 1⁽¹⁾ and contrary to representation made by the supplier, we have taken exception to this expenditure by ICA in the amount of \$445,000. This action requires ICA to seek an adjustment with the supplier or the Government of Cambodia.

The agency has found it difficult to work out a satisfactory procedure for appropriate corrective action in cooperation with the Cambodian Government, principally because of concern for foreign policy implications and internal conditions in Cambodia.

It is the opinion of ICA, with which we concur, that remedial action, in order to be effective, should cope with the basic problems, namely, the disparity between official and free-market exchange rates, the elimination of speculators and unqualified importers, and the channeling of imports into the hands of reliable firms. The necessary reforms to be instituted and enforced by the

¹Section 201.21 limits ICA financing of commodities to purchases at prices approximating, as nearly as practicable, lowest competitive market prices.

Cambodian Government should be accompanied by intensified end-use checks conducted by the Mission and cooperating local agencies of the recipient country.

DOLLAR CASH GRANTS

GRANTS IN 1955 BASED ON URGENT IMMEDIATE NEED FOR LOCAL CURRENCY

When the separate and expanded aid program for Cambodia started in the middle of fiscal year 1955, the agency determined that there was an urgent immediate need for action to provide local currency for military budget support payments. The commercial import program was not expected to generate the required amount of riels until sometime in fiscal year 1956, because of a normal lead time of between 6 to 12 months from the time procurement authorizations are issued until the commodities arrive and are available for sale in the recipient country and counterpart deposits are made by the importers. Accordingly, the agency resorted to the device of dollar cash grants, resulting in an immediate availability of corresponding local currency.

On February 1, 1955, the United States Government agreed to provide the sum of 1.5 million dollars per month for support of the Cambodian military budget. This was accomplished by the payment of dollar checks to the Cambodian Government which, in consideration therefor, deposited to the counterpart account corresponding local currency, amounting to 52.5 million riels per month, at the official exchange rate of 35 riels per dollar. These riels were then to be released by joint agreement of the two countries to pay the costs of the military establishment of Cambodia.

ICA obligated and expended a total of 12 million dollars in this manner during fiscal year 1955. The agency's practice was to obligate and expend simultaneously these cash grants. Four

monthly grants of 1.5 million dollars each were made from February to May and a final lump-sum payment of 6 million dollars in June 1955. This latter grant, although designed to cover military costs for the 4-month period June through September 1955, was considered necessary by the agency for political and fiscal reasons. ICA pointed out that the United States commitment actually covered calendar year 1955, which is Cambodia's budgetary period, and that there was no previously established pipeline of commercial imports to generate counterpart which would be required in the first quarter of United States fiscal year 1956.

We noted that the riels accruing from the 6 million dollar grant were released in equal installments during the June-September period. This timing would seem to indicate that the ICA dollars, although obligated in June 1955, could have been disbursed in corresponding installments during the 4-month period in accordance with actual Cambodian budget requirements.

In fiscal year 1956, and thereafter, ICA did not use the cash grant procedure for generating riels since commodity imports provided sufficient local currency funds to pay both military support and economic development costs.

NO ACCOUNTING FOR USE OF ICA DOLLAR FUNDS

According to the agreement of February 1, 1955, the dollar funds were to be used by Cambodia only as mutually agreed by the two governments. ICA anticipated that the dollars would be allocated for commodity imports, subject to certain restrictions accepted by the Cambodian Government in September 1955:

1. No financing of luxury imports.
2. No duplication with imports financed by ICA under the regular procurement authorization program.
3. Procurement on the basis of lowest competitive prices.
4. No procurement from countries under Communist control.
5. No procurement of agricultural products, which are in surplus in the United States, without prior approval of the United States Government.

The Mission has been unable to receive an accounting for the ultimate use of the 12 million dollars. At the time of our field examination, the status of these funds was as follows:

<u>Reported utilization</u>	<u>In millions</u>
Authorized by Mission for commodity imports, commodity composition not known	\$ 6.0
Mission advised, but not consulted	1.5
No information	<u>4.5</u>
Total	<u>\$12.0</u>

While the Mission has received no further specifics to date, it has information that in the 2 years since June 1955 Cambodia allocated foreign exchange reserves substantially in excess of the 12 million dollars for commodity imports which meet the 5 conditions stipulated in the cash grant agreement. The agency concluded that the grant dollars in this process have been used for approved purposes. The agency decided that it was not consistent with a satisfactory relationship between the Mission and the Cambodian Government to insist on a full and specific accounting, and hence will no longer press a request to this end.

DEPOSIT AND USE OF LOCAL CURRENCY

ADMINISTRATIVE PROCEDURES

The Cambodian Government is required under the economic co-operation agreement of September 1951 to deposit local currency (riels) funds commensurate with the dollar value of United States aid furnished. These funds are deposited to a special counterpart account in the National Bank of Cambodia under the control of the Minister of Finance; withdrawals require approval of the United States Government exercised through the ICA Mission in Phnom Penh.

Counterpart funds have accrued from the commodity import program, triangular trade arrangements, and cash grants. Dollar expenditures for economic and technical development projects have not required counterpart deposits.

Somewhat different deposit procedures apply to shipments of United States surplus agricultural commodities for which 3.3 million dollars had been programmed for Cambodia during 1955-57. Local currency proceeds received from the sale of these commodities are the property of the United States Government until released to Cambodia for jointly approved programs. The proceeds are required to be deposited by the Cambodian Government to a United States Treasury account.

ICA encountered a number of problems relating to the deposit and use of local currency which the agency attributed largely to the inability of Cambodian authorities to understand the purposes of the various United States procedures and controls. We have previously called attention to the absence of a satisfactory bilateral agreement between Cambodia and the United States setting forth

terms and conditions of ICA assistance. The agency advised in its comments dated January 1958 that these administrative difficulties and misunderstandings have been substantially overcome.

Proceeds from surplus agricultural commodities
improperly commingled

In the case of Cambodia, the usual sales agreement was not negotiated prior to ICA authorization in 1956 for the shipment of surplus agricultural commodities. The Cambodian Minister of Finance deposited the commensurate riel value in the regular counterpart account, which is a Cambodian-owned account, instead of the United States disbursing officer's account as required. The Mission made repeated requests for a segregation of these funds, until eventually in fiscal year 1957 agreement was reached with the Finance Ministry so that proper deposit procedures would be followed for subsequent transactions.

Delays in utilization of counterpart funds

After the counterpart funds generated by the 12 million dollar cash grant had been fully expended for military costs, the Mission proposed that subsequent requirements be met from counterpart funds accruing from the commodity import program. Cambodia was reluctant to accept this method of funding, desiring two counterpart accounts--one for military costs and the other for economic and technical development costs. Cambodia also desired riel generation by cash grants rather than through commodity imports. Cambodia wanted to avoid the possibility of economic and technical development funds' being diverted for military purposes, and the

cash grant method was preferred because of unfamiliarity with the ICA procedures for administering commodity import programs.

These disagreements continued for a 6-month period, during which time Cambodia refused to withdraw counterpart funds for military support, reportedly meeting its costs by borrowing from commercial banks. The deadlock was broken in April 1956 when, following procedural explanations by the American Ambassador, Cambodia agreed to follow established ICA procedures.

The disagreement concerning counterpart procedures also caused delays in releasing counterpart funds needed for economic development projects and for the Mission's operating expenses which were to be met through the technical assistance trust fund.

Unauthorized use of customs receipts

In March 1956 the Cambodian Government withdrew, without obtaining prior ICA approval, the sum of 57 million riels (1.6 million dollars) on the basis that these funds represented customs receipts on ICA-financed commodity imports and that ICA had agreed in principle to their release. However, these receipts are required to be deposited to the counterpart account and are subject to joint withdrawal in the same manner as other counterpart deposits. In April 1956 the ICA Mission retroactively approved the withdrawal of 51 million riels which was the actual amount of customs receipts deposited to that date, and, on United States representations, Cambodia covered a 6 million riel overwithdrawal by the deposit of additional customs receipts.

USE OF OFFICIAL EXCHANGE RATE ADDS TO THE COST
OF UNITED STATES DOLLAR AID

For the purpose of converting dollar aid funds into local currency, ICA has accepted the official exchange rate of 35 riels per one United States dollar. This rate was originally established in 1953 on the basis of monetary arrangements with France which also governed the exchange rates for the Vietnamese and Lao currencies. The relationship between the French franc and the currency unit in each of the three Indochinese states was set at 10 to 1, while the exchange rate between the franc and the United States dollar was 350 to 1.

The rate of 35 to 1 is unrealistically low in comparison with free-market rates ranging between 75 to 1 and 90 to 1. Use of the official rate requires more United States dollar funds to generate the local currency necessary for the aid program than if a rate more nearly equal to those in the free market were used. The possible relationship between the exchange rate and the increase in Cambodia's foreign exchange reserves (p. 16) and the unfavorable effect on the import program by providing incentives for speculation and irregular procurement practices (p. 21) have been mentioned previously.

The agency stated that it has been considered advisable to postpone negotiations with the Cambodian Government for any revisions in the exchange rate until current negotiations on similar problems have been concluded with the Governments of Vietnam and Laos.

SUMMARY OF LOCAL CURRENCY TRANSACTIONS

Following is a summary of local currency transactions through June 30, 1957, as reported by ICA in October 1957:

	<u>Dollar equivalent</u>	
	(in millions)	
Deposits:		
Counterpart funds	\$74.7	
Proceeds from surplus agricultural commodities	<u>2.2</u>	<u>\$76.9</u>
Withdrawals:		
For United States use	.4	
For Cambodian use:		
Military budget support	51.2	
Economic and technical development and support costs	<u>19.1</u>	<u>70.7</u>
Balance on deposit:		
Counterpart account	6.1	
U.S. Treasury account	<u>.1</u>	<u>\$ 6.2</u>

ICA advised that procedures have been worked out in fiscal year 1957 for an orderly release of counterpart funds on a monthly basis, pursuant to requests submitted by the Cambodian Government. Military budget expenditures are being reimbursed only upon review by the United States Military Assistance Advisory Group and certification as to their eligibility.

MILITARY BUDGET SUPPORT

A major portion of the local currency funds generated by ICA was intended for the support of the Cambodian military budget. The agency programed for this purpose the following annual amounts during the 3-year period 1955-57:

<u>Fiscal year</u>	<u>In millions</u>
1955	\$25
1956	24
1957	18

The above amounts were programed to cover Cambodian expenses in the corresponding calendar years which are the budgetary period of that country. In 1957 it was determined that over 3 million dollars of generated local currency was available from prior years, reducing the requirement for dollar funds to be obligated in 1957 from 18 to 15 million dollars.

Funding in 1955 and 1956 was based on preliminary cost estimates

ICA funding in the first 2 years was at the rate of 1.5 million dollars per month to cover pay and allowances of the Cambodian Army at certain agreed force levels, based on preliminary cost estimates made in 1955. In addition, funds were programed for construction and certain other military projects approved by the United States Departments of Defense and State. These cost estimates were subject to review by the Military Assistance Advisory Group which had been established in Cambodia at the beginning of fiscal year 1956. Although this review did not take place until fiscal year 1957, the agency advised that it benefited the earlier program because most of the expenditures on military projects were made subsequent to 1956.

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Need for "scale-down" of force levels supported by the United States

The Cambodian force levels supported in 1955 and 1956 were higher than those recommended by the United States Joint Chiefs of Staff as desirable to meet United States security objectives. Cambodia agreed to make reductions in the size of its forces, but the United States Government considered it necessary to support temporarily a higher level (by about 10 percent above the recommended strength) until the negotiated "scale-down" could be accomplished.

Decrease in Cambodia's budgetary contribution for 1956

For fiscal year 1956, the Cambodian Government estimated that it would contribute the equivalent of about 14 million dollars toward a 37 million dollar over-all military budget. Subsequent contributions by Cambodia failed to reach the anticipated level by about 6 million dollars. The principal reason cited by the agency was the severe drought which decreased Cambodia's agricultural exports in 1956 and caused a decline in national revenues.

Reduction of ICA support program in 1957

A special study group representing ICA, State, and Defense recommended, in May 1956, a 25 percent reduction in the over-all aid program for 1957. The results of this study coincided with similar recommendations by other United States officials.

Prior to submission of the report by the special study group, ICA had presented to the Congress in its proposed 1957 program for Cambodia substantially the same aid level as in prior years, namely, 45.5 million dollars, including 23.5 million dollars for

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military support. Subsequently the agency reduced its 1957 program to 34.5 million dollars, of which 15 million dollars was intended for military budget support. The sum of 3.4 million dollars was available as a carry-over of unexpended local currency funds from fiscal years 1955 and 1956. The responsible United States agencies estimated the 1957 requirements as 18.4 million dollars, including 17.9 million dollars for troop pay and allowances and \$500,000 for the military construction program. Actual expenditures in 1957 were reported to have been approximately 16.5 million dollars which was used wholly for troop pay and allowances; none of the funds were committed for military construction. A carry-over of local currency equivalent to 1.9 million dollars was available for use in meeting 1958 requirements.

The Military Assistance Advisory Group advised that the United States commitment for 1958 calls for a maximum monthly support level of 1.37 million dollars, based on a scaled-down troop strength as recommended by the Joint Chiefs of Staff.

ICA advised that its Mission to Cambodia anticipates a gradual reduction in the requirements for United States support based on increased Cambodian budgetary contributions.

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ECONOMIC AND TECHNICAL DEVELOPMENT

GENERAL PROBLEMS

In addition to continuing various economic and technical assistance projects as a part of the Associated States program in 1951-54, ICA initiated in 1955-57 a number of new projects designed to increase the impact of the development program for Cambodia as a newly independent country. The major emphasis of the ICA program was on transportation, the construction of a port highway being the largest single project. Some of the other more significant activities were in the fields of agriculture (principally irrigation), health, education, and public administration (principally civil police administration).

The agency encountered considerable problems in developing a sound program. The Mission was short of qualified technical staff, lacked the necessary economic data on Cambodian development requirements, and did not receive full cooperation from the Cambodian Government. As a result, the Mission had to spread its limited resources over a wide area of assistance activities which required special efforts toward effective coordination, readjustment, and proper planning.

Staffing difficulties

The ICA Operations Mission to Cambodia was established in November 1954. Prior thereto, the Mission in Saigon had been responsible for program activities in Cambodia. The agency experienced difficulties in recruiting the desired number of technical and administrative personnel primarily because of undesirable health conditions and the remoteness of the country. The lack of adequate

housing, schooling, and other facilities delayed the accomodation of a sizable staff in Phnom Penh. At the time of our field visit in October 1956, the Mission had a total of 54 American employees, representing only 60 percent of its 89 authorized positions. Of these employees, 18 were classified as administrative personnel and 36 were technicians and technical support personnel.

The agency pointed to subsequent progress made as a result of its recruitment efforts:

	<u>Number of overseas employees</u>		
	<u>October 1956</u>	<u>June 1957</u>	<u>December 1957</u>
United States personnel:			
Technical	36	47	53
Administrative	18	20	20
Foreign nationals employed for support functions	<u>100</u>	<u>127</u>	<u>166</u>
Total Mission employees	154	194	239
American contract personnel	<u>68</u>	<u>157</u>	<u>282</u>
Total overseas personnel	<u>222</u>	<u>351</u>	<u>521</u>

The majority of the foreign nationals (Cambodians and third country nationals) were paid from local currency funds made available by the Cambodian Government from the counterpart account through a technical assistance trust fund placed under Mission administration.

American contract personnel in Cambodia were furnished principally under the ICA-financed engineering and construction contracts for the port highway project.

In fiscal year 1958, ICA considered it necessary to increase the number of authorized positions to 109 United States employees in the Mission, largely in response to Cambodian requests for

additional American advisors to improve governmental services and operations. In December 1957, over 30 of the total authorized positions were unfilled.

Readjustment of earlier assistance activities

Regarding the projects which ICA had taken over from the former Indochina program, the agency found that they had received insufficient technical supervision and lacked over-all objectives. Many of these activities were of an emergency nature and chiefly concerned with the financing of equipment and operating funds for various Cambodian Government agencies, while technical assistance had been furnished by French advisors. In order not to disrupt the operations of the Cambodian Government, the agency proceeded at a moderate pace in eliminating these earlier projects or re-aligning them under an over-all plan. ICA advised that, while at the close of fiscal year 1956 55 of the earlier projects were still in operation, a year later the majority had been completed, discontinued, or absorbed by the Cambodian Government.

Emergency planning of new projects

As to the new projects initiated in 1955 and 1956, ICA made substantial financial commitments for the purpose of achieving immediate and maximum impact, as determined by foreign policy considerations. In view of the special situation of the newly independent country, and the efforts of other nations offering outside assistance to Cambodia, the agency dispensed with the more precise project planning required by established ICA procedures. The Mission was authorized to enter into project agreements sometimes without regard for the Mission's technical and administrative

limitations and, in a few cases, before mutually agreed plans for execution of the projects had been developed with the Cambodian authorities. The Director of ICA issued, in November 1955, a special directive confining evaluation by the Washington staff to substantive economic and technical judgments. The Washington technical divisions were instructed to place maximum reliance on Mission recommendations as to economic and technical acceptability; any doubts were to be resolved in favor of approving the undertaking.

Two-year development plan
without United States participation

With the assistance of French advisors, but without the participation by the United States aid mission, the Cambodian Government adopted, in December 1955, a 2-year development plan which called for the expenditure of 100 million dollars. This plan, although not in the nature of a comprehensive country development plan, has become the basis for all Cambodian requests for foreign aid. The United States has agreed to participate in those projects which seem to have fundamental importance and would have high priority in a properly conceived development plan.

The agency advised that Cambodia is engaged in reassessing current plans and formulating a new 5-year plan. ICA expected, in case its assistance is requested, to cooperate toward obtaining full accord on major long-term objectives and sound realistic priority projects.

Improvements recommended by special study mission

Representatives of ICA, State, and Defense, as a result of studies made in 1956 of the effectiveness of the development

program for Cambodia, arrived at a number of recommendations. Following are five of the more important recommendations with which we concur, based on our observations of the program administration in 1956 and the first half of 1957. Action reported by ICA to have been subsequently taken to improve the effectiveness of the program is indicated for each area:

1. More emphasis on technical assistance. The agency pointed to additional technical services programmed in fiscal year 1957 and agreement with Cambodia on projects for improved governmental budgetary, tax, and customs procedures. However, recruitment difficulties continue to delay an expanded technical assistance program.
2. Concentration on relatively fewer activities, and within each, only on carefully selected projects which significantly contribute to the solution of major problems. We noted that at the close of fiscal year 1957 the Mission reported 49 active dollar-financed projects compared with 39 in 1956 and 14 in 1955. The Mission has worked out a plan to reduce the number of projects by consolidation of related activities and termination of completed undertakings. This action will be in addition to the phasing out of the earlier projects taken over from the former Indochina program. (See p. 39.)
3. Less emphasis on repair and maintenance type of projects. ICA advised that the most important project of this nature, which is for highway rehabilitation, is nearing completion; the Mission has proposed that, at the end of fiscal year 1958, highway maintenance shall become the permanent financial responsibility of the Cambodian Government.
4. Encouragement of the Cambodian Government to assume a greater share of responsibility. ICA reported continuous efforts in this direction, but repeated cabinet changes in the Cambodian Government have impeded progress.
5. More effective liaison with Cambodia in program planning. The agency stated that more satisfactory working relationships have been established between the United States and Cambodia for purposes of more effective program planning and implementation.

REVIEW OF SELECTED PROJECTS

We have examined in further detail the following two principal projects: (1) construction of a port highway and (2) civil police administration.

CONSTRUCTION OF A PORT HIGHWAY (Project #42-31-001)

<u>Financial status</u> <u>at June 30, 1957</u>	<u>Dollar</u> <u>contribution</u>	<u>Counterpart contribution</u>	
		<u>Dollar</u> <u>equivalent</u>	<u>Millions of</u> <u>riels</u>
Obligations by project agreements:			
Fiscal year 1955	\$ 635,000		
Fiscal year 1956	7,400,000	\$1,000,000	35.0
Fiscal year 1957	<u>8,500,000</u>	<u>1,000,000</u>	<u>35.0</u>
Total	<u>\$16,535,000</u>	<u>\$2,000,000</u>	<u>70.0</u>
Expenditures	<u>\$ 7,811,000</u>		

The Cambodian Government proposed a budgetary contribution of 70 million riels (2 million dollars) when the project was first considered, but later agreed to contribute only 30 million riels (\$857,000) to be applied during the 3-year period 1955-57.

In fiscal year 1958, ICA obligated (through January 8, 1958) an additional 3.7 million dollars of appropriated funds and authorized the equivalent of 1.6 million dollars in counterpart funds.

Summary observations

This project involves the construction of a 2-lane, all-weather, 130-mile highway partially through difficult jungle areas. We believe that the project was not planned and funded in accordance with good financial practice. The reconnaissance survey undertaken in 1956 was not adequate to establish realistic cost estimates, and considerable upward revisions became necessary. The

agency obligated funds which were not sufficient to cover estimated costs but were in excess of current requirements on a pay-as-you-go basis. Protracted negotiations, due in part to difficulties in obtaining the necessary cooperation of the Cambodian Government, delayed the execution of a construction contract. Anticipated completion of the construction work was advanced from July 1957 to October 1958, with the possibility of further extensions. Inquiries of a congressional committee have disclosed questionable transactions whereby ICA financed used construction equipment formerly owned by the contractor.

Project objective

Prior to 1955, when Cambodia was a member of the Associated States monetary union, the Vietnamese port of Saigon served as the port of entry for all overseas shipments destined for Cambodia. With the advent of national independence, Cambodia desired to eliminate its reliance on the Saigon facilities and made construction of a port within its own borders a project of the highest priority. As early as November 1954 the United States Government contemplated, at an estimated cost of 6 million dollars, the financing of the construction of a port and a highway connecting the port with the capital city of Phnom Penh. Subsequently, when France agreed to construct the required port facilities at Kompong Som on the Gulf of Siam, the United States assumed responsibility for construction of the port highway only. The French contribution to the project was expected to be about 10 million dollars and that of the United States about 15 million dollars.

The construction of the new highway along the route of an existing road (Route 3) leading to the Gulf of Siam some distance from the proposed port site was not considered advisable. However, since the French project for constructing the port facilities was scheduled for earlier completion than the new highway (Route 4), ICA agreed to finance certain rehabilitation work on Route 3, in particular the construction of bridges.

Contract services financed by ICA

The ICA commitment for financing the port highway embraces the procurement of required technical services as well as construction equipment and materials. The agency agreed to finance the following three contracts between the Cambodian Government and American firms:

Reconnaissance (dollar costs, \$17,700)--The firm of Brown and Blauvelt, New York, N.Y., was employed in April 1955 to conduct a reconnaissance and determine project feasibility, costs, construction time, and other pertinent matters.

Engineering (dollar costs, \$703,000; local costs equivalent to \$170,000)--A contract was signed on December 31, 1955, with Michael Baker, Jr., Inc., Rochester, Pennsylvania, for engineering services including determination of highway locations and design, supervision of construction, and training of Cambodian personnel. In fiscal year 1958, the contract amount was increased to \$1,038,000 to cover a time extension of the engineering services.

Construction (dollar costs, 15 million dollars; local costs equivalent to 1.9 million dollars)--A contract was executed March 28, 1957, with A. L. Dougherty Overseas, Inc., an Indiana

corporation, for highway construction in accordance with engineering plans prepared by Michael Baker, Jr., Inc. The firm is to procure all required equipment and materials and to be responsible for training of Cambodian personnel in highway maintenance. By amendment in January 1958, contract ceilings were raised to 18.7 and 5.2 million dollars for external and local costs, respectively.

Increase in project costs

The costs of this project have risen considerably over and above original estimates. An initial field estimate in November 1954 of 3.5 million dollars was proved to be entirely unrealistic when the reconnaissance undertaken in April 1955 presented a cost figure of 14.4 million dollars for the new highway and \$600,000 for bridges on Route 3. Estimates in October 1956 totaled close to 17 million dollars. Revised computations in fiscal year 1958 call for an ultimate expenditure of 27.7 million dollars, including 21.7 million for dollar financing and 6 million for local currency from the counterpart account.

Upward revisions of cost estimates became necessary both for engineering services and for construction work.

	<u>Dollar costs</u>
Engineering:	
1955 project proposal	\$ 350,000
Estimate, June 1955	900,000
Contract, as extended through October 1958	1,038,000

<u>Dollar costs</u>	<u>Local costs</u>
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(in millions)

Construction:		
1956 project proposal	\$13.0	\$1.0
Contract signed March 1957	15.0	1.9
Contractor's revised estimates, September 1957	19.7	5.3

An extension of the engineering services from June 1957 to October 1958 was chiefly due to delays in the construction phase of the project. Increases in the cost of the construction work are attributed by ICA to the following principal reasons:

1. Prices and quantities of equipment and materials increased. The reconnaissance survey estimated a requirement of 9.08 million dollars compared with the contractor's latest estimate of 13.1 million dollars.
2. Unforeseen difficulties occurred in construction operations, in particular clearing and filling work in the swampy jungle area, extensive solid rock excavations, and additional requirements for bridge and drainage structures.
3. Local costs increased because of the larger consumption of locally procured materials and supplies, combined with higher prices and labor rates in Cambodia.

Delays in contracting

After the reconnaissance report had been received in June 1955, a period of 6 months was required to contract for the necessary engineering services. An additional 15 months expired before the construction contract was signed in March 1957.

The protracted contract negotiations, in particular for the construction contract, caused concern to responsible officials in the field as they tended to jeopardize the desired impact of the project. The Washington office of ICA considered these delays unavoidable because of efforts to abide by approved contracting procedures even though they were time consuming. The negotiations conducted in Washington required frequent communications with the field to clarify contract terms and specifications. ICA encountered inexperience and hesitation on the part of the Cambodian Government whose participation as a signatory of the contract was required.

Pending completion of contract negotiations and signing of the final contract, ICA and the Cambodian Government authorized the contractor in July 1956 by a temporary letter of agreement to proceed with the initial procurement of construction equipment. Supplementary authorizations were issued to procure and ship additional road equipment and place contract personnel on active duty before the advent of the rainy season in Cambodia. The agency authorized these actions, because of the urgency of the project and to get initial construction work under way, until eventually in March 1957 the construction contract was signed by the Cambodian Government and A. L. Dougherty Overseas, Inc.

While the contractor was operating under temporary letters of agreement, the Government of Cambodia refused to sign the certificates of performance which are required by ICA Regulation 1 (Sec. 201.18) before reimbursement to the contractor can be made. In order to reimburse Dougherty for his costs, ICA deemed it necessary

to waive this provision of the regulations. The agency advised that this exception was temporary, and in the interim period the Mission made the required certifications.

Congressional review
of construction contract

The International Operations Subcommittee of the House Government Operations Committee has made an examination, including public hearings in March 1958, concerning certain aspects of the construction contract with A. L. Dougherty Overseas, Inc. This examination has been principally concerned with the amounts paid by ICA for used equipment formerly owned by the contractor, including the payment of sales commission thereon, and certain transfers and assignments between affiliated companies of the contractor. Representatives of the General Accounting Office assisted in the work of the subcommittee.

CIVIL POLICE ADMINISTRATION (Project #42-71-163)

<u>Financial status</u> <u>at June 30, 1957</u>	<u>Dollar</u> <u>contribution</u>	<u>Local currency contri-</u> <u>bution</u>	
		<u>Counterpart</u> <u>account</u>	<u>Cambodia</u> <u>budget</u>
		(dollar equivalent)	
Obligations:			
Agreement, June 15, 1955, as amended	<u>\$774,800</u>	<u>\$200,000</u>	<u>\$50,000</u>
Expenditures	<u>\$ 55,000</u>		

Project objective

In 1955, United States officials found that the Cambodian civil police forces, composed of national, provincial, and municipal police and a provincial and village guard, were in need of training, proper organization, transportation facilities, standardized armament, and communications equipment. To overcome some of these shortcomings, Cambodia established a police academy in Phnom Penh and requested foreign assistance to modernize and re-equip the national police force. In June 1955, following a survey made by a police advisory team, ICA committed the sum of \$774,800 for providing such assistance.

Absence of mutual understanding with Cambodia
and resulting lag in project

Our review of the project shows that, at the time of signing the project agreement, the Cambodian Government and ICA had no firm understanding as to the execution of the project.

The agency originally proposed to use the greater portion of project funds (\$400,000) for the contract services of technical advisors in police administration, pertaining to police records,

communications, and counterintelligence. The balance of the ICA contribution was to be used for procurement of commodities, principally transport equipment (\$111,500) and equipment for establishing a police training school (\$150,000). At Cambodian request, the part of the project calling for contract services was eliminated and the commodity element correspondingly increased. Lacking plans for the specific type of equipment to be procured, the ICA Mission and the Cambodian Government agreed in September 1955 that the additional \$400,000 would be used for "miscellaneous commodities to be determined by ICA/Washington." As of June 30, 1956, a year after the signing of the agreement, the parties still had no plans for use of this \$400,000 nor for some of the funds originally programmed for commodities. The only procurement action taken by the close of fiscal year 1956 was the purchase of some 24 motor vehicles.

A major obstacle to further implementation of the project was the lack of a mutual understanding with Cambodia regarding the rendering of technical assistance. Cambodia made efforts to obtain ICA-financed equipment but without utilizing the advice and assistance of United States technicians in the development of a long-range plan. On the other hand, ICA was opposed to any plan under which Cambodia would receive technical advice from other foreign-aid missions, for example, the French or Indian Mission, inasmuch as it would put the United States in the position of furnishing equipment without having an adequate part in the determination of requirements or control over distribution and utilization.

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Project revived in 1957

Because of the special importance ascribed to the project, for the purpose of preserving internal security in Cambodia and serving United States foreign policy interests, ICA and the Department of State determined to keep the project funds available for use. In the course of fiscal year 1957, the Cambodian Government altered its position and agreed to accept the agency's proposed plan for the services of United States police technicians.

A revised project agreement was signed on June 17, 1957. Most of the unliquidated balance of \$700,000 is to be used for equipment. The police advisory group which had been maintained by the Mission in Phnom Penh on a stand-by basis is to be expanded. ICA costs for this group in 1956-57 were \$66,000; these costs were in addition to contributions under the project agreement.

Plans also call for construction of a police training center using funds contributed from the counterpart account (\$200,000). The Cambodian Government's budgetary contribution (\$50,000) is intended to finance training aids for the center.

While we are cognizant of the special objectives of the project, we believe that, from the viewpoint of good financial management, funds should not have been obligated in advance of a firm understanding with the recipient country and prior to the development of reasonably definite and complete plans. The agency's action resulted in the use of fiscal year 1955 funds for activities 2 to 3 years later in fiscal year 1958. This action also was in contravention of established ICA procedures which prescribe that

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funds shall not be obligated under a project agreement unless implementation orders for specific commodities and services ("sub-obligations") can be issued within 6 months after the signing of the project agreement.

FINANCIAL STATEMENTS

OPINION ON FINANCIAL STATEMENTS

The accompanying financial statements showing the use of mutual security funds in fiscal years 1955 through 1957 for economic and technical assistance to Cambodia are based on fiscal reports and supporting data available at the Washington office and the overseas Mission of the International Cooperation Administration. We analyzed the underlying transactions and made such reclassifications and additional disclosures as we considered necessary for a presentation of meaningful financial statements.

Our examination was directed principally to determining the adequacy of the agency's financial and related procedures. In connection therewith, we verified recorded obligations and expenditures pertaining to selected major activities in fiscal years 1955 and 1956 and, on the basis of this examination, we satisfied ourselves as to the general fairness of the agency's fiscal reports for these years. Transactions for fiscal year 1957, as contained in the accompanying financial statements, were taken from agency records without verification.

INTERNATIONAL COOPERATION ADMINISTRATIONASSISTANCE PROGRAM FOR CAMBODIASUMMARY OF OBLIGATIONS AND EXPENDITURESBY SOURCE OF FUNDINGFISCAL YEARS 1955-57

<u>Title and year of appropriation</u>	<u>Obligations</u>	<u>Expenditures</u>
<u>1955:</u>		
Support of forces, Southeast Asia and Western Pacific	\$ 35,149,071	\$33,309,312
Administrative expenses	100,851	100,851
Total 1955 program (note 1)	<u>35,249,922</u>	<u>33,410,163</u>
<u>1956:</u>		
Defense support, Asia	40,819,057	37,825,330
Reallotments, support of forces, South-east Asia and Western Pacific (1955)	1,540,577	1,327,487
Technical cooperation	1,812,539	803,804
Presidential fund (note 2)	200,585	199,660
Administrative expenses	362,840	360,257
Total 1956 program (notes 3 and 4)	<u>44,735,598</u>	<u>40,516,538</u>
<u>1957:</u>		
Defense support	32,499,182	7,651,989
Technical cooperation	1,980,663	581,451
Reallotments:		
Support of forces, Southeast Asia and Western Pacific (1955)	1,203,700	-
Defense support, Asia (1956)	2,270,037	-
Technical cooperation (1956)	109,500	-
Administrative expenses	430,486	369,343
Total 1957 program	<u>38,493,568</u>	<u>8,602,783</u>
Total programs at June 30, 1957	<u>\$118,479,088</u>	<u>\$82,529,484</u>

¹The original 1955 program was \$38,265,660. Subsequent to June 30, 1955, funds totaling \$3,015,738 were deobligated, of which \$2,744,277 was re-allotted and reobligated in fiscal years 1956 and 1957.

²The special presidential fund was used in 1956 to pay the excess of domestic cost over world market prices for United States surplus sugar shipped under section 402 of the Mutual Security Act of 1954 (22 U.S.C. 1922).

³The original 1956 program was \$47,208,891. Subsequent to June 30, 1956, funds totaling \$2,473,293 were deobligated, of which \$2,379,537 was re-allotted and reobligated in 1957.

⁴This statement excludes fiscal year 1956 funds obligated in the amount of \$110,000 for direct forces support which were allocated to ICA but are a part of the military assistance program under administration of the Department of Defense.

INTERNATIONAL COOPERATION ADMINISTRATION

ASSISTANCE PROGRAM FOR CAMBODIA

SUMMARY OF OBLIGATIONS

BY PROGRAM CATEGORY

FISCAL YEARS 1955-57

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>Total</u>
<u>GENERATION OF LOCAL CURRENCY</u> (note 1):				
Commodity import program (exhibit 3):				
Surplus agricultural commodities	\$ -	\$ 2,457,582	\$ 800,000	\$ 3,257,582
Other commodities	20,555,577	28,908,598	22,438,682	71,902,857
Triangular trade programs (using currencies of third countries)	-	908,263	3,191,737	4,100,000
Cash grants	<u>12,000,000</u>	<u>-</u>	<u>-</u>	<u>12,000,000</u>
Total programs for generation of local currency	32,555,577	32,274,443	26,430,419	91,260,439
<u>ECONOMIC AND TECHNICAL DEVELOPMENT</u> (excluding local currency contributions, note 1) (exhibit 4)	2,593,494	11,753,978	11,632,663	25,980,135
<u>OCEAN FREIGHT ON RELIEF SHIPMENTS</u> (note 2)	-	344,337	-	344,337
<u>OVERSEAS ADMINISTRATION</u>	<u>100,851</u>	<u>362,840</u>	<u>430,486</u>	<u>894,177</u>
Total programs, at June 30, 1957	<u>\$35,249,922</u>	<u>\$44,735,598</u>	<u>\$38,493,568</u>	<u>\$118,479,088</u>

¹ Local currency generated by these activities was used or programmed principally for military budget support (approximately 64 million dollars for the 3-year period) and the balance for local costs of the economic and technical development program.

² Ocean freight financed by ICA in 1956 applied to emergency shipments of surplus agricultural commodities authorized by Title II of Public Law 480, 83d Congress (7 U.S.C. 1721). The Commodity Credit Corporation arranged for the shipment of rice, valued at 2.5 million dollars, to meet a crop failure in Cambodia.

INTERNATIONAL COOPERATION ADMINISTRATIONASSISTANCE PROGRAM FOR CAMBODIASUMMARY OF OBLIGATIONS FOR COMMODITY IMPORT PROGRAMFISCAL YEARS 1955-57

<u>Commodity category</u>	<u>Cumulative obligations</u> <u>June 30, 1957</u>	
	<u>Detail</u>	<u>Total</u>
	(in thousands)	
<u>AGRICULTURAL COMMODITIES:</u>		
Surplus commodities:		
Bread grains	\$ 1,146	
Milk and other dairy products	1,419	
Sugar	561	
Ocean freight	132	
Sugar (other than surplus)	1,067	
Other food items	55	
Fertilizers	<u>373</u>	\$ 4,753
<u>FUEL:</u>		
Petroleum and products	<u>5,150</u>	5,150
<u>RAW MATERIALS AND SEMIFINISHED PRODUCTS:</u>		
Textile products	21,707	
Medicinal and pharmaceutical preparations	3,137	
Chemicals and chemical preparations	1,343	
Rubber and rubber products	2,817	
Pulp and paper	874	
Nonmetallic minerals	4,822	
Iron and steel mill materials and products	5,026	
Miscellaneous fiber products	<u>876</u>	40,602
<u>MACHINERY, VEHICLES, AND OTHER EQUIPMENT:</u>		
Industrial machinery	4,655	
Electrical apparatus, generators and motors, engines, and turbines	3,221	
Construction, mining, conveying, and agricultural equipment	471	
Motor vehicles and other transportation equipment, parts, and accessories	<u>6,130</u>	14,477
<u>MISCELLANEOUS:</u>		
Scientific and professional instruments	254	
Other categories of commodities	266	
Ocean freight	<u>9,659</u>	10,179
Total obligations, at June 30, 1957		<u>\$75,161</u>

INTERNATIONAL COOPERATION ADMINISTRATION
ASSISTANCE PROGRAM FOR CAMBODIA

STATUS OF ECONOMIC AND TECHNICAL DEVELOPMENT PROJECTS

FISCAL YEARS 1955-57

AT JUNE 30, 1957

	<u>Supporting schedule</u>	<u>Obliga- tions</u>	<u>Expendi- tures</u>
(in thousands)			
<u>COSTS OF EQUIPMENT, SUPPLIES, AND CONTRACTUAL SERVICES:</u>			
Agriculture and natural re- sources	1	\$ 1,492	\$ 810
Industry and mining	1	413	83
Transportation	2	18,353	8,912
Health and sanitation	2	1,063	411
Education	3	953	82
Public administration	3	837	55
Community development	3	49	20
Information	3	<u>304</u>	<u>35</u>
Total equipment, supplies, and contractual services		23,464	10,408
<u>SERVICES OF UNITED STATES GOVERN- MENT TECHNICIANS AND SUPPORT COSTS</u>			
		2,150	1,644
<u>TRAINING ACTIVITIES</u>			
		366	43
<u>UNDISTRIBUTED EXPENDITURES--in transit between Washington office and Mission</u>			
		<u> </u>	<u>2,026</u>
Total at June 30, 1957		<u>\$25,980</u>	<u>\$14,121</u>

INTERNATIONAL COOPERATION ADMINISTRATION

ASSISTANCE PROGRAM FOR CAMBODIA

STATUS OF ECONOMIC AND TECHNICAL DEVELOPMENT PROJECTS

FISCAL YEARS 1955-57

AT JUNE 30, 1957

	<u>Obligations</u>	<u>Expenditures</u>
	(in thousands)	
<u>AGRICULTURE AND NATURAL RESOURCES:</u>		
Prek Leap School	\$ 8	\$ 5
Agricultural extension	92	3
Agricultural education	127	-
Irrigation and drainage develop- ment	58	58
Irrigation and drainage systems	846	630
Heavy equipment repair and mainte- nance shop	66	40
Soil and water resources studies	50	-
Development of hybrid seed corn	25	25
Rice seed improvement	40	10
Livestock improvement	92	2
Animal disease control	63	26
Assistance to Office of Agricul- ture Products Credit	8	8
Agricultural Cooperative of Kandal	2	2
Improvement and equipment for pilot sawmill	5	1
Development of forestry resources	<u>10</u>	<u>-</u>
Total agriculture	<u>\$1,492</u>	<u>\$810</u>
<u>INDUSTRY AND MINING:</u>		
Mineral development	\$ 8	\$ 7
Supply of electric generators	155	75
Survey of power site	20	-
Construction of garage workshop and boat slip at Phnom Penh	<u>230</u>	<u>1</u>
Total industry and mining	<u>\$ 413</u>	<u>\$ 83</u>

INTERNATIONAL COOPERATION ADMINISTRATION

ASSISTANCE PROGRAM FOR CAMBODIA

STATUS OF ECONOMIC AND TECHNICAL DEVELOPMENT PROJECTS

FISCAL YEARS 1955-57

AT JUNE 30, 1957

	<u>Obligations</u>	<u>Expenditures</u>
	(in thousands)	
<u>TRANSPORTATION:</u>		
Port highway	\$16,535	\$7,811
Highway repair and maintenance	1,019	572
Repair, rehabilitation, and construction of bridges	578	343
Dredging	41	21
Airfield maintenance and rehabilitation	<u>180</u>	<u>165</u>
Total transportation	<u>\$18,353</u>	<u>\$8,912</u>
<u>HEALTH AND SANITATION:</u>		
Yaws, scabies, trachoma control	\$ 32	\$ 17
Malaria control	170	110
Inoculation	1	-
Sanitation wells in rural areas	81	61
City water supply	523	189
Nurse and midwife training	4	1
Medical and health training	51	-
General distribution of drugs	56	15
Biology Institute	2	2
Hospital improvement	23	1
Transportation facilities for Ministry of Health	15	15
Basic health education	<u>105</u>	<u>-</u>
Total health and sanitation	<u>\$ 1,063</u>	<u>\$ 411</u>

INTERNATIONAL COOPERATION ADMINISTRATION
ASSISTANCE PROGRAM FOR CAMBODIA

STATUS OF ECONOMIC AND TECHNICAL DEVELOPMENT PROJECTS

FISCAL YEARS 1955-57

AT JUNE 30, 1957

	<u>Obligations</u>	<u>Expenditures</u>
	(in thousands)	
<u>EDUCATION:</u>		
Vocational industrial education	\$300	\$ -
Rural education, demonstration and training	333	79
Preparation of textbooks and teaching aids	20	-
Fundamental education	24	-
Improvement of school supervisory system	41	-
Rural development through education	192	3
English language laboratory	<u>43</u>	<u>-</u>
Total education	<u>\$953</u>	<u>\$82</u>
<u>PUBLIC ADMINISTRATION:</u>		
Civil police administration	\$775	\$55
Improvement of government finance	30	-
Statistical survey of national resources	<u>32</u>	<u>-</u>
Total public administration	<u>\$837</u>	<u>\$55</u>
<u>COMMUNITY DEVELOPMENT:</u>		
Construction of demonstration villages	<u>\$ 49</u>	<u>\$20</u>
<u>INFORMATION:</u>		
Improvement of mass communication	\$274	\$16
Printing plant training	<u>30</u>	<u>19</u>
Total information	<u>\$304</u>	<u>\$35</u>